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ABSTRACT

This thesis looks at a methodology that can be used to cost a specific human resource activity - absenteeism. It applies the costing framework established by Cascio (1991) to three local organisations, with differing results and reactions. The cost of absenteeism ranged from $461 per employee up to $1,454 per employee per annum.

Other costing techniques for Human Resource Departments are also looked at, but the main thrust of this thesis is the costing of absenteeism.

Absenteeism is studied in terms of its causes, costs, and possible solutions. Each of three organisations studied, is discussed in terms of the cost of absenteeism to the organisation, their reactions to this statistic, and any possible solutions that may flow from the calculation of this statistic.

DECLARATION

"I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any institution of higher education; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text"

Signature ..

Date 27/11/92

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1.0 INTRODUCTION

The Human Resource Department has long been seen as a department that only provides support services to an organisation, but has no actual effect on the profit levels of the organisation. This has caused many Human Resource Managers to become classed as second rate Managers behind those in finance, marketing and other departments (Mercer, 1989).

One reason for this is confusion over the role of the Human Resource Manager. Many Human Resource Managers describe the Human Resource function as simply hiring, firing, training, compensation and other similar tasks, however a more appropriate definition is presented by Dahl (1988). He says that Human Resource Management is the developing of "Human Resources into a significant, competitive advantage resulting in an 'optimum' return on the dollars spent [acquiring those] human resources." This definition describes the Human Resource function, but also gives a dollar benefit to it. It is this dollar benefit that can be used to justify the existence and role of the Human Resource Department.

This thesis looks at the role of human resource costing in an organisation. This role is increasing in importance as many Human Resource Departments face increasing pressure to justify the expense involved in having them. In this thesis human resource costing, in terms of absenteeism costing, will be studied by looking at three local organisations:

i. Conaust Ltd
ii. BHP Sheet and Coil Products W.A.
iii. A large metropolitan public Hospital.

The basis of this costing is the absenteeism costing framework established by Cascio (1991).

This thesis initially discusses the broad area of human resource costing and then briefly looks at more specific cost areas such as recruitment, training and absenteeism. It is the costing of employee absenteeism that is the focus of this thesis. The costing framework established by Cascio (1991) is then used to calculate the absenteeism costs for each of the organisations in the research project. These calculations are discussed both separately and together. The cost of absenteeism at each of the organisations has been calculated in an attempt to prove or disprove the research hypotheses presented in section 4.3. Some possible solutions to the problems of absenteeism are looked at. Finally, some suggestion for further research into the areas discussed in this thesis are suggested.

2.0 COSTING HUMAN RESOURCE DEPARTMENT ACTIVITIES

The Human Resource Department is often considered to be a service orientated, cost based department. In conventional cost accounting terms, the Human Resource Department falls into the indirect and non productive category (Fowler, 1983). As such it is at risk of downsizing in times of tough economic conditions, or when company profits are reduced. This is because the department, in its service role, generally exists outside the central core of the company's business (Mercer, 1989, p. 6). Any perceived non essential areas are at risk when overheads need reducing. The Human Resource Department is one of these at risk departments.

In order to remove, or at least lessen this risk, Human Resource Managers need to show that their departments are significantly contributing to the organisation. Two of the key ways in which this can be done is by: i) Reducing costs, or ii) Increasing profit (Mercer, 1989, p. 7). To do this, Human Resource Managers must change their thinking from that of a cost centred approach to that of a profit orientated approach. Instead of simply implementing programs that spend the departments budget, Human Resource Managers must ensure that they calculate the financial benefit of these programs to the organisation.

All company departments, including sales, marketing, manufacturing, planning and finance, must justify their existence by showing how they will aid the company's business prospects. Common sense dictates that the Human Resource Department should also be able to justify itself by showing how it favourably affects the company, and its profit levels. One of the most common ways to attempt to show the effect a Human Resource Department has on profit is through human resource accounting.

Human resource accounting is the use of traditional accounting and financial analysis techniques to analyse human resource programs to determine the benefits to the

organisation of the various programs. The various techniques that can be used to determine the dollar value of human resource programs include: Return on investment; Payback period; Discounted cash flow; Internal rate of return; Cost-benefit analysis; Utility analysis; Historical cost analysis; Break even analysis; Replacement cost; Present value of future earnings (Phillips, 1991; Cascio, 1991, p. 3; Boudreau, 1990; Mercer, 1989; Dahl, 1988).

However, most of these techniques can only be applied to human resource programs that take place in the macro-environment of the organisation. They are used to determine the value, to the organisation, of large scale human resource programs, such as training programs, career counselling, team building, development programs and other more specific programs (Phillips, 1991; Boudreau, 1990).

The above mentioned techniques can help to show the effect the Human Resource Department has on an organisation's profit. However, many other human resource functions can also affect the profitability of the organisation. These are the day to day issues that human resource practitioners deal with, such as recruitment, selection, training, absenteeism, turnover, occupational health, safety and welfare and wellness programs (Cascio, 1991; Stone, 1991; McBride and Dowling, 1985; Fowler, 1983).

The way in which these smaller human resource functions can be costed is generally through the use of various ratios and formulae. The four main areas on which these formulae focus are: Recruitment; Training; Employee absence; and Turnover. These four areas follow an employee through the normal employee life cycle in an organisation (McBride and Dowling, 1985).

2.0.1 Recruitment

This covers all aspects of selecting and appointing a person to a specific position. It can include internal promotion or external recruitment. Recruitment costs start when the initial decision to employ is made, through job definition, interviewing, appointment and

training, until full efficiency is achieved (McBride and Dowling, 1985).

The costs involved include time involved in defining the position, advertising costs, Human Resource Department costs (time spent handling the recruitment), responding to applicants, appointing an individual, relocation costs, induction costs, and training costs until the individual is performing at an acceptable level (Clark, 1988, p. 68; McBride and Dowling). This data gives rise to the total recruitment cost, and the average cost per recruitment.

2.0.2 Training

This covers all forms of employee improvement, including on the job training, formal classroom training and specific skill enhancing programs. As well as the obvious dollar outlay on training courses, materials and trainers, other costs need to be considered as well. These include the lost productivity of trainees and trainers during the training, wages of those being trained, rent on equipment and venues, accommodation, meals and transport costs. This data enables the calculation of total training costs, course costs, cost per trainee, the percentage of the Human Resource Department budget spent on training, and the number of employees trained per trainer (Clark, 1988, p. 68; McBride and Dowling, 1985).

2.0.3 Absenteeism

Employee absenteeism is usually defined as "any failure to report for or remain at work as scheduled, regardless of reason" (Cascio, 1991, p. 59). However, absenteeism does not include scheduled absences such as paid vacations and rostered days off (Clark, 1988, p. 68). The costs associated with absenteeism include direct costs (pay, benefits), management cost (supervisory time spent dealing with absenteeism, completing reports), and other incidental costs (machine down time, overtime costs, extra scrap and waste of materials) (Stone, 1991, p. 458). This enables costs such as frequency of absences, costs per absence, cost per employee and the total costs of absenteeism to be calculated

(Cascio, 1991, p. 60; Stone, 1991, p. 458; Clark, 1988, p. 68; McBride and Dowling, 1985).

2.0.4 Turnover

This is the process of employees leaving an organisation and needing to be replaced. It can be either voluntary (employee induced) or involuntary (employer initiated) (Stone, 1991, p. 454; McBride and Dowling, 1985). Turnover involves costs of departure, recruitment, selection, orientation, training and, depending on the reason for the turnover, negative publicity (Cascio, 1991, p. 23; Stone, 1991, p. 454; McBride and Dowling, 1985).

The cause of turnover can affect the cost to the organisation. Voluntary turnover is usually more costly due to the unpredictable nature of when it will occur. Other factors that affect the cost to an organisation include: severance pay; administrative costs; exit interviews; retrenchment packages; legal costs (if due to death or injury); recruitment and training cost (Cascio, 1991, p. 23; Stone, 1991, p. 456; McBride and Dowling, 1985). The cost of turnover is usually expressed in terms of total cost, or cost per individual turnover.

Koenig (1991) has researched turnover in retail banks and found that the hard costs (tangible, measurable costs) ranged from US $2,226 up to US $2,663 per teller lost. The average cost per lost teller was US $2,378. Kazemek and Shomaker (1990) looked at turnover in a medium sized hospital and found that the total cost of turnover was approximately US $3.35 million a year.

3.0 COSTING ABSENTEEISM

One of the largest costs to many organisations is that of the staff. This is in terms of wages, salaries, overtime and benefits. Related to this are the costs associated with staff when they do not attend work. These costs can include overtime, sick pay, as well as the costs of lost production and finding replacement staff.

Absenteeism is "any failure to report for or remain at work as scheduled, regardless of reason" (Cascio, 1991, p. 59). This definition includes all periods when a worker is not at work when they should be. They use of "as scheduled" automatically excludes any preplanned absences, such as annual leave, public holidays, personal leave and rostered days off (Stone, 1991, p. 458). These are excluded because these events can be planned for, and as such are already costed into standard employee costs (Clark, 1991, p. 68).

Unfortunately, absenteeism is often not calculated as a true business cost. Many businesses simply determine time lost to absenteeism without translating this into economic terms (Kuzmits, 1979). Many managers accept and tolerate absenteeism as a legitimate cost of doing business. This is especially true in Australia where the "sickie" is ingrained into the national culture. This occurs even when absenteeism can be creating a large financial burden for the organisation to carry.

During the 1991/92 financial year, absenteeism cost the Australian Taxation Office approximately $30 million. This accounts for 6% of all working days, and is above the national average of 4.5% (Tax Office, 1992). A recent Confederation of British Industry study estimated that absenteeism cost British business 5 billion pounds a year. On any given day 3-7% of the workforce would be absent. (Huczynski and Fitzpatrick, 1989). Two to four percent of the American workforce is absent from work each weekday. This adds up to a US $30 billion absenteeism bill annually (Ellis and Seifert, 1989).

In 1985, 31.3 million Australian working days (2.2% of total working time) were lost due to illness and injury. In comparison, the number of working days lost to industrial disputes was only 2.4 million days. (Kenyon & Dawkins, 1989). Finally, a recent Australian study (Wooden, 1992) suggests that on any single working day it is expected that 2.4% of the Australian workforce will be absent, costing employers approximately $7 billion annually.

3.1 COSTING TECHNIQUES

As previously mentioned, calculating the costs of absenteeism is not suited to the macro-costing techniques of human resource accounting. Instead, formulae and ratios have proved more appropriate for the calculation of costs related to employee absenteeism. There are many different techniques that can be used for these calculations.

Stone (1991, p 458) and Martin (1990) use two methods of calculating absenteeism costs. The frequency rate provides a measure of the number of absences that occur in a year. This rate does not consider the length of the absence, and as such has an inherent weakness.

$$\text{Frequency Rate} = \frac{\text{Total Number of Separate Absences}}{\text{Number of Employees}}$$

The absence rate is a measure of how much actual working time was lost through employee absence in a given time frame. As the duration of the absence is now included, this is an improved measure of absenteeism.

$$\text{Absence Rate} = \frac{\text{Total Hours Lost Through Absence} \times 100}{\text{Total Hours Rostered}}$$

These two methods of calculation provide basic measures of the costs to an organisation of absenteeism. However, they lack the sophistication required to be taken seriously as genuine measures of absenteeism.

A more rigourous technique is provided by Huczynski and Fitzpatrick (1989). They propose 6 measures that can be used to compare absenteeism with other companies, industry standards, or over a period of time.

* Absence cost as a percentage of annual turnover
* Absence cost as a percentage of annual pretax profit
* Absence cost as a percentage of total annual operating costs
* Absence cost as a percentage of added value
* Anticipated pretax profit of a one percent improvement in absenteeism
* Anticipated pretax profit improvement by meeting the targeted absenteeism benchmark.

In order to calculate these figures, Huczynski and Fitzpatrick (1989) have developed a list of 6 direct and 10 indirect figures that need to be determined first. The direct costs include:

i. Sick pay
ii. Payment of fringe benefits during absence
iii. Overtime payments for staff filling in a vacancy

iv. Overtime payments further down the line caused by the absence
v. Excess cost of temporary staff employed
vi. Overstaffing to cover for absences.

The indirect costs that are related to absenteeism are less visible and therefore harder to quantify. The authors note that although reasonably thorough, this list is far from complete.

i. Cost of recruiting and training extra staff
ii. Cost of management/supervisory time devoted to dealing with absence related issues.
iii. Reduced productivity, from work being done by less experienced or fatigued workers.
iv. Lower product quality of work due to replacement of staff, cost of rejects, cost of correcting quality problems.
v. Cost of disruptions and section shut-downs due to absent worker.
vi. Extra costs incurred to meet slipped deadlines.
vii. Loss of customers due to failure to meet deadlines or to inferior product quality.
viii. Low morale amongst other employees caused by lax attendance of certain employees.
ix. Cost of having extra equipment/staff available to cover possible absences.
x. Any other costs relevant to the organisation.

This method is more thorough and includes most of the financial impacts of absenteeism. However, it involves considerable effort, and therefore extra cost for limited extra results.

McBride and Dowling (1985), along with Schuler, Dowling, Smart and Huber (1992) and Clark (1988), have discussed a simpler, yet thorough and useful, way to calculate absence costs. This method involves collecting general data relating to the number of employees, number of absences and the number of hours lost to absenteeism. The direct wages and on-costs of the absentee are required. The time the absentee's supervisor spends dealing with the absence is also required. This can include such items as time lost in handling the problem, rescheduling work, arranging, instructing and monitoring the replacement as well as counselling and disciplining the absentee. Productivity figures also need to be determined. This can be through the loss of gross profit for work not performed, the cost of replacement staff, or the cost involved in catching up with the work.

Once all of this data is available, McBride and Dowling (1985) have established four calculations which provide different measures of absenteeism.

Firstly, the total cost of absenteeism is calculated from the addition of all of the above mentioned factors. The second calculation determines the average cost per absence. This is equal to the total cost divided by the number of absences. The average cost per hour absent is equal to the total cost of absence divided by the number of hours lost to absenteeism. The fourth formula calculates the average cost of absenteeism by dividing the total cost of absence by the number of employees.

These calculations are useful to the Human Resource Manager who wants easy to calculate information that is relevant to how absenteeism effects the organisation directly.

Wooden (1992) has recently completed an Australian study on the costs of absenteeism. This study looked at four main components of labour absence costs. They are:

i. The cost of sick leave paid to the absent employees
ii. The incremental costs associated with any overtime work as a result of unscheduled absences.
iii. The incremental cost of hiring and training additional casual or temporary labour as a result of unscheduled absences.
iv. The cost of deliberately overstaffing in expectation of regular absences.

Through interviews with managers and employees at sixty one different work places, Wooden was able to determine each of the above mentioned cost factors. A final total absenteeism of $7 billion for all Australian businesses was determined. These calculations are useful for macro costs of all organisations in an industry or country, however their use in individual organisations is limited.

3.2 CASCIO'S ABSENCE COSTING MODEL

The previously mentioned costing techniques all have positive and negative attributes which alter their relevance and usefulness to an organisation which wishes to calculate the true cost of its absenteeism.

Cascio (1991) has developed, from Kuzmits (1979), an Absence Costing Model that combines the rigour of Wooden (1992) with the ease of use and relative simplicity of McBride and Dowling (1985). This model divides absenteeism into eleven separate cost

estimates which when totalled provide the total costs of all absenteeism in a year, and the total cost of absenteeism per employee each year. The overall approach is shown in Figure 1.

Cascio's (1991) approach to absenteeism costing is more beneficial to an organisation than other approaches as many of the different stages in the model provide valuable information to managers prior to the full calculation being completed.

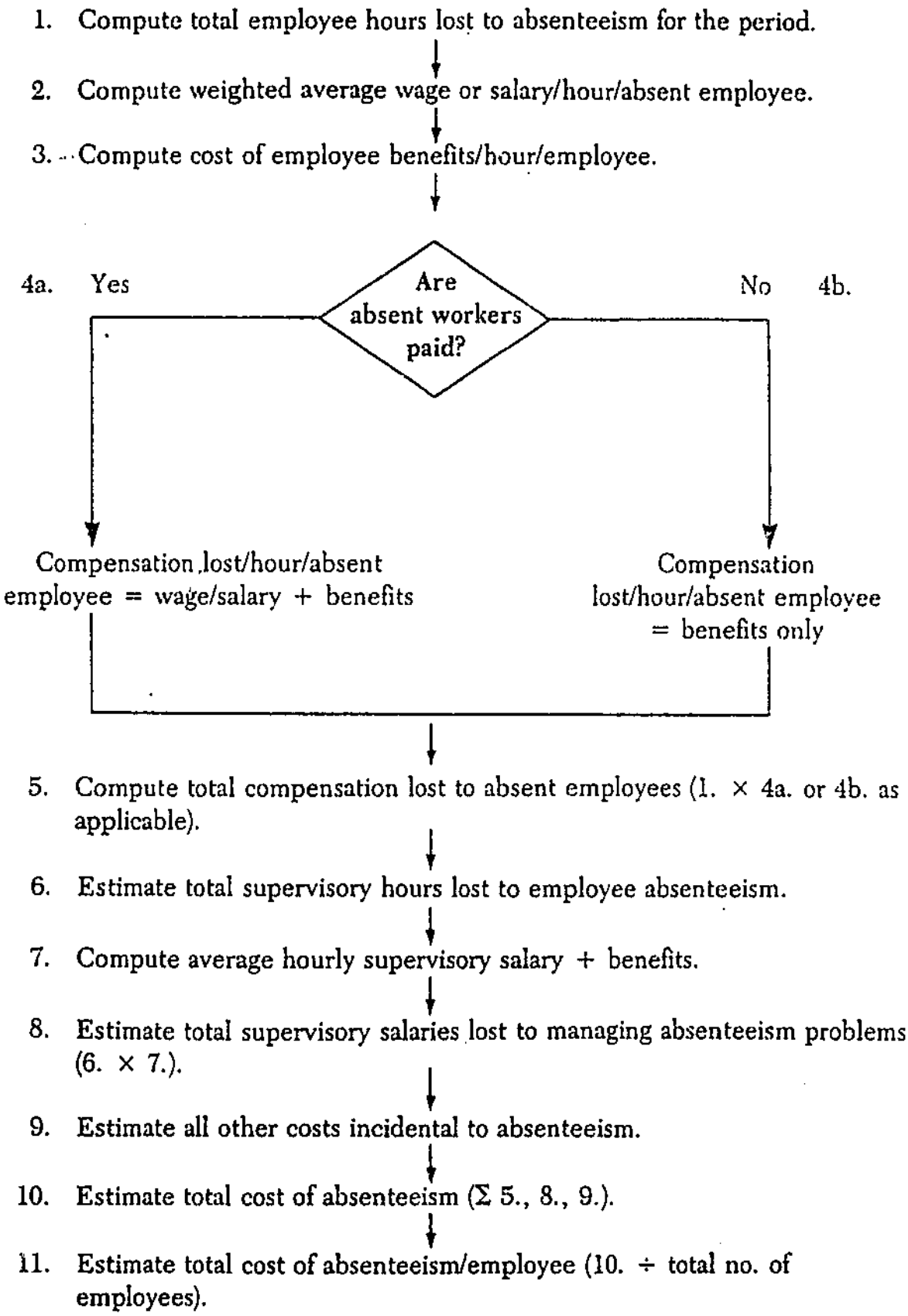
3.2.1. Step 1.

The first stage in this model is to calculate the total employee hours lost to absenteeism for all employees, including blue collar, clerical, management and professional. All absences should be included. This includes whole and part day absences, and all time lost except planned absences such as vacations, holidays and rostered days off. Absences due to illness, accidents, emergencies and other unplanned occurrences should be included.

3.2.2. Step 2.

The second stage in this calculation is to compute the weighted average salary/wage per hour per employee. This involves assigning a percentage of absenteeism to each occupational group and then multiplying this by the average hourly wage for that group. This produces a weighted average hourly wage of absenteeism for the organisation. This stage can be left out if employees do not receive a salary/wage while they are absent. In Australia however, most workers receive sick leave allowances, so this stage should be included.

FIGURE 1 - *Cascio's Absence Costing Model*



3.2.3. Step 3.

Estimating the cost of benefits paid to employees per hour is the third step in this model. Given that the cost of employee benefits (superannuation, paid vacation and holidays, profit sharing, health and life insurance, etc.) can total between 30 and 45% of total pay-roll costs (Cascio, 1991, p. 65), this is an important figure to calculate. One method of calculating the cost of employee benefits per hour per employee is to divide the total cost of weekly employee benefits by the number of hours worked per week.

3.2.4. Step 4.

To calculate the fourth step in this model, total compensation lost per hour per absent employee, two of the previous calculations need to be summed together. They are they weighted average hourly wage/salary per employee (Step 2.) to the cost of employee benefits per hour per employee (Step 3.). If absent workers are not paid then this stage will simply equal Step 3.

3.2.5. Step 5.

The fifth step in Cascio's (1991) model is to calculate the total compensation lost to absent employees. This item is calculated by multiplying the total employee hours lost to absenteeism (Step 1.) by the total compensation lost per hour per employee (Step 4.). This figure provides the total direct cost of all absent employees for the organisation.

3.2.6. Step 6.

One of the often forgotten costs of absenteeism is the time supervisory staff spend dealing with the problem. This can include time spend rescheduling work, instructing replacement employees, checking the performance of replacements, dealing with production problems, filing of absence or leave reports and counselling and disciplining the absentee on their return.

The sixth stage in this model attempts to estimate the total number of supervisory hours lost to employee absenteeism. Unfortunately, personnel records seldom provide this information. As such, an estimate of the average number of supervisory hours spent dealing with the problems of absenteeism needs to be determined. This can be done by determining the average hours lost per supervisor per day. This is then multiplied by the number of supervisors who deal with absenteeism directly. Finally, this figure is multiplied by the number of working days in the period. This includes all shift and weekend work.

3.2.7. Step 7.

Once the total number of supervisory hours lost to employee absenteeism has been estimated, the average hourly wage for supervisors, including benefits, can be calculated. This is the seventh step in Cascio's (1991) model. This figure should only indicate the salaries of those supervisors who deal with absenteeism problems.

3.2.8. Step 8.

The next step in this model is to calculate the total supervisory salaries lost to dealing with absenteeism problems. This figure is calculated by multiplying the total supervisory hours lost to absenteeism (Step 6.) by the average hourly supervisory wage (Step 7.).

3.2.9. Step 9.

This step involves estimating all of the incidental costs to absenteeism that have not been included in previous steps. This includes costs that are unique to each organisation. These costs might include the following: Temporary help; Labour pools for absent workers; Overtime premiums; Machine down time; Production losses; Quality problems; Inefficient use of materials; Wastage.

Initially these estimates will be difficult due to many of the components not being regularly reported. However, as the organisation accumulates experience in costing

absenteeism, identification and calculation of these incidental costs will become easier.

3.2.10 Step 10.

This stage in the model produces the first real absenteeism cost for an organisation. It is the total estimated cost of absenteeism for a year. This is how much absenteeism, for all of the workers, has cost the organisation. It is calculated by summing the total compensation lost to absent employees (Step 5.), to the total supervisory salaries lost to dealing with absenteeism (Step 8.) and finally adding in all incidental absence costs (Step 9.).

3.2.11. Step 11.

The final calculation is that of the total estimated cost of absenteeism per employee per year. This figure is determined by dividing the total estimated cost of absenteeism (Step 10.) by the number of employees in the organisation. This figure produced is often more useful and meaningful than the total cost estimate (Step 10.) as it is easier to grasp. This is because it is easier to relate to an individual employee instead of the whole organisation. Also, an individual figure allows comparison between different periods, departments, or organisations irrespective of the number of employees.

4.0 RESEARCH FRAMEWORK

The framework that has been used throughout the research period of this thesis will be discussed in terms of four key areas. These areas are as follows:

i. Research purpose
ii. Research questions
iii. Research hypotheses
iv. Research methodology.

4.1 RESEARCH PURPOSE

The aim of this research is to look at absenteeism in three distinct organisations. The research is based on the absenteeism cost framework that has been discussed by Cascio (1991). This framework provides a comprehensive look at the absenteeism costs that an organisation can incur. The three organisations in which absenteeism will be studied are: Conaust Ltd., BHP Sheet and Coil Products WA, and a large metropolitan public hospital. These three were chosen as they would provide an unique look at absenteeism across a varied spectrum of organisations.

This thesis is expected to expand the small volume of information that currently looks at Australian human resource costing techniques. More importantly, it looks at a specific costing technique and how it can be applied to one of the key cost areas of an organisation - employee absenteeism.

The thesis will present a brief look at absenteeism, and its costing in 3 different Australian organisations. Of the small volume of literature that is available on costing human resource practices, there is a noticeable lack of examples and case study examinations of how the theory is put into practice. This thesis will attempt to bridge this gap of information.

4.2 RESEARCH QUESTIONS

There are a number of questions that this thesis attempts to answer. They relate to how absenteeism costs are calculated in each of the organisations in the study. They are also used to test the research hypotheses of this thesis. The major research questions are as follows:

* Is the determination of absenteeism costs considered to be a standard cost that is regularly calculated, in the same way that returns on investments are, or is it seen as an unnecessary calculation?

* What is the actual level of absenteeism, in dollar terms, and what affect does this have on the organisation?

* What do the results of this research indicate for the organisations involved in the research, in terms of future use of absenteeism costs, action to be taken over current costs, etc.?

4.3 RESEARCH HYPOTHESES

The three key research questions will be used in an attempt to determine the truth of the following hypotheses relating to absenteeism costs in the three organisations being studied. The hypotheses are presented in a non statistical format to make them easier to understand. Only the null hypothesis will be presented for each of the following hypotheses.

H1: The calculation of absenteeism costs will show that absenteeism has little or no significance to the organisation.

H2: The absenteeism costs at BHP Sheet and Coil, Conaust and the metropolitan Hospital will be the same, and have the same effect on management.

H3: There will be no significant difference between absenteeism costs at either of the three organisations studied.

4.4 RESEARCH METHODOLOGY

The research methodology that will be used for this thesis is two part. Initially, the research is purely descriptive. Its purpose is to establish the fundamentals behind a discussion on absenteeism costs. It has looked at what human resource costing is, what absenteeism is, what causes it, and how it can be treated. This section of the thesis is included to provide the background information that is required before a discussion on absenteeism costing can take place.

The second part of the research methodology involved interviewing the relevant staff at each of the three organisations that have agreed to participate in the research. These interviews looked at what absenteeism costing has been, or is being, done in the organisation; how effective it is; and whether it is considered a valid measure of employee absenteeism costs.

These interviews have provided the basis for acquiring the relevant personnel and financial information that is required to complete the second part of the thesis. That is, the calculation and comparison of absenteeism costs between each of the organisations. The costs of absenteeism were calculated using Cascio's (1991) model. This model was discussed earlier in detail. The information that was required to calculate the relevant absenteeism costs for each of the three organisations included:

i. Total number of employees

ii. Total employee hours lost to absenteeism

iii. Weighted average of salaries and wages

iv. Cost of employee benefits

v. Supervisory time and wages spent dealing with absenteeism

vi. Any incidental costs that can be attributed to employee absenteeism.

5.0 ABSENTEEISM

Employee absenteeism is considered by many to be a major problem in society. The costs of absenteeism affect the worker, the employer, the economy and the community at large (Palmer, 1988, p. 139). The term, "employee absenteeism", therefore contains many different meanings depending on how it affects the individual. Generally absenteeism is "absence [from work] for which the employee is accountable" (Kelly, 1990). Chadwick-Jones, Nicholson and Brown (1982, p. 1) have defined employee absenteeism as being absent "from work, where work is defined by the employees presence at a particular location (office or workshop) for a fixed period each day." Gibson (in Goodman , Atkin and Associates, 1984, p. 20) has included the employee's attitude to the absence in the definition of absenteeism. It is defined as the act of being absent from work due to "an inability, an inappropriateness or an unwillingness to work." The most "typical" definition of employee absence is provided by Wooden, Dawkins and Kenyon (1987, p. 4). They define absenteeism as "time spent away from work when, in the normal course of events, a worker would be expected to be present in the workplace."

While all the previous definitions provide a useful insight into absenteeism, the most appropriate definition, and the one used throughout this thesis, is that given by Cascio (1991). According to Cascio (1991, p. 59) "absenteeism is any failure to report for or remain at work as scheduled, regardless of the reason." By using the words "as scheduled" Cascio (1991) automatically excludes vacations, personal leave and other authorised periods of absence. A great deal of confusion, and misunderstanding, can be eliminated by recognising that if an employee is not at work when they are scheduled to be, they are absent, regardless of the cause (Cascio, 1991, p. 59).

5.1 CAUSES OF ABSENTEEISM

Although it is relatively easy to define absenteeism, it is much harder to determine what actually causes absenteeism to occur. Considerable research has been undertaken to try and solve this dilemma (Martocchio, 1992; Meisenheimer, 1990; Brooke and Price, 1989; Kenyon and Dawkins, 1989). Kelly (1990) has determined that there are basically four types of absence for which an employee is accountable. These are absences that occur due to:

i. Illness
ii. Injuries - both on and off the job
iii. Miscellaneous personal reasons - such as sick children, car broke down
iv. Absences because the individual just did not feel like working.

These four broad areas can be broken down further into more specific employee related, or job related causes. Employee related causes of absenteeism relate to issues such as the physical condition of the employee, their lifestyle, family responsibilities, and their commitment and responsibility to their work peers. Job related causes refer to the nature of the job, internal work relationships with supervisors, peers and subordinates, the working conditions, and any inherent health and safety hazards of the workplace (Kelly, 1990).

5.1.1 Employee Related Causes

There are many employee related causes for absenteeism. Research has indicated that stress is one of the key causes of absenteeism across a broad range of industries. (Underwood and Sowonola, 1992; Mulcahy, 1991; Hendrickson, 1989). Recent research has shown that between 1985 and 1990 the incidence of disabling stress has more than doubled (Mulcahy, 1991). Martocchio (1992) suggests that although stress is a cause of absenteeism, it is not necessarily always negative. Staw and Oldham, along with Rosse and Hulin (both in Martocchio, 1992) suggest that absenteeism may serve as a

"maintenance function" that helps the worker cope with their stress. This in turn increases job performance, and has some remedial effects for employee health.

Three conditions that are related to stress and are causes of employee absenteeism are alcohol abuse, smoking and the use of illegal drugs. Brooke and Price (1989) have determined that the excessive use of alcohol relates positively to increased absenteeism. The American Lung Association has recently reported that American smokers have approximately 81 million more days absent from work, than their non smoking co-workers (Jones and Kleiner, 1990). Aalberts (1989) has found that smokers have statistically higher rates of absenteeism than non smokers. The use of illegal drugs, both at home and at work, is a significant cause of employee absenteeism. As well as increased absenteeism, illegal drug use increases work hazards to other employees, and depresses employee morale in the organisation (Knowles, 1990; Anderson, Decker, Virginia, Gajda, Ison, Kavet and Loomis, 1989).

Other employee related causes of absenteeism relate to the effect children have on working parents. Recent research has shown that on average, working parents lose more than 8 working days a year organising child care. This does not include time lost for parents to stay at home caring for their children (Pati, 1991). Meisenheimer (1990) has shown that mothers of young children have a very high rate of absence (11.5%) when compared to women with no children (5.8%).

5.1.2 Job Related Causes

Most of the employee related causes can be controlled by the employee. However, the job related causes of absenteeism are usually out of the individuals control. Research has indicated that one of the major causes of absenteeism is employee job satisfaction (Stone, 1991, p. 459; Brooke and Price, 1989; Kenyon and Dawkins, 1989; Chadwick-Jones et al, 1982). The relationship between job satisfaction and absenteeism, although seemingly obvious, is often overlooked. If a worker is not happy in their current position, one way

to overcome this is to avoid the work by being absent.

Related to the concept of job satisfaction, is that of job boredom and work routinisation (Brooke and Price, 1989; Chadwick-Jones et al, 1982, p. 123). Routinisation is the degree to which the job is repetitive. Meisenheimer (1989) indicates that operators, fabricators and labourers (traditionally performing repetitive and boring tasks) had a high incidence of absence (5.7%) in comparison to other workers.

Stone (1991, p. 459) has identified a number of Australian causes for absenteeism. They include factors such as poor interpersonal communication, job boredom and poor management - employee relations.

Research (Brooke and Price, 1989; Goodman et al, 1982, p. 235) has also indicated a number of other work based reasons behind an employee making the decision to be absent from work. They include:

i. The level of power of concentration and centralisation in the organisation
ii. The wage level of the employee
iii. Confusion over the role of the individual in the organisation (role conflict, ambiguity and overload)
iv. The degree to which the organisation, and work groups accept and discipline absenteeism
v. The individuals personal work ethics
vi. The degree of commitment, by the employee to their work and the organisation.

"Sick Building Syndrome", or internal air pollution caused by modern office environments is also a factor in employee absenteeism. It is estimated to cost between $2 billion and $100 billion annually in the United States in terms of absenteeism, lost productivity, medical costs and sick leave payments (Schlossberg, 1991).

Josefowitz and Gadon (1989) have determined that hazing, or initiation, can create unreasonable levels of stress, which leads to unnecessary absenteeism. Hazing includes practical jokes, meaningless and humiliating tasks and unnecessary work assignments that are all a part of the rites of passage, for a new employee, from being an outsider to a welcomed member of the group.

6.0 CONAUST LTD.

Conaust Ltd. is one of the main stevedoring companies on the Fremantle wharfs. They are the container, stevedoring and material handling arm of the P and O group. They employ 150 wages employees, and 28 office and management staff. Conaust, and the waterside as a whole, has recently been through a major restructuring and streamlining exercise. Some internal areas of Conaust have still to be restructured. This is why Conaust was chosen to be included in this research project.

The restructuring at Conaust has resulted in a reduction of the number of employees required, due mainly to multiskilling of the workforce. Previously, an absent worker was required to be replaced before any work could begin. Now, multiskilling and restructuring has allowed the work to start before the replacement arrives by rescheduling and rearranging the job tasks.

Employees of Conaust are entitled to 10 days paid sick leave a year. However, after 20 days leave has accrued, this sick leave can be paid out. This has created an anomaly in which for the first two years of an employees working life they will take no sick leave until they have the required 20 days. After this point, they keep the 20 days as a buffer and use the rest of their sick leave entitlements up.

The restructuring that has occurred has allowed productivity bonuses, based on moving a certain number of containers, to be paid. When this is coupled with the fact that most shifts require some overtime, hence extra pay (extra money being one of the most effective incentives to work), it usually ensures that workers turn up to work regularly. The extra penalties that are paid to workers for weekend, afternoon and evening shifts, are considerably more than they would earn on sick leave. Penalties are not paid on sick leave. The average wage, at Conaust, is made up of approximately 49% overtime payments.

Conaust, along with other waterside employers, is in the unique position of not only employing its own 150 waterside workers, but they are also partially responsible for a pool of excess workers. This pool consists of workers displaced due to the structural changes that have been occurring on the waterfront. These employees are paid by a loading levy imposed on ships that unload at Fremantle. The excess employees must be given jobs before any new employees can be hired.

6.1 COST CALCULATION

The cost of absenteeism at Conaust was worked out to be $1,166 per employee per annum, or $174,974 for the whole organisation per annum. These figures relate to the 150 wages workers only at Conaust, and as such this figure is an underestimate of the full cost.

There was a total of 5,473 hours lost to absenteeism in the last year. The average wage per hour per employee was calculated by averaging each of the eight salary levels depending on the absenteeism of each level. This resulted in an average wage figure of $31.21 per hour (See Appendix One for all cost figures).

The main benefits paid to Conaust workers are sick leave and annual leave. The cost per hour of these benefits is $0.30. This is a low figure as overtime was already costed into the average wage figure. The total compensation lost per hour for each employee that is absent is equal to $31.51.

Following Cascio's (1991) model the next step is to calculate the total compensation lost to absent employees. This involves multiplying the total hours lost to absenteeism (5,473) by the compensation lost per hour ($31.51). This gives a total of $172,475 lost to the direct costs of absenteeism at Conaust.

The time supervisors spend dealing with absenteeism is negligible at Conaust. However, in the calculations an assumption of one hour lost per week has been made. The supervisors average hourly wage is $45.60, but this increases to $48.06 when the benefits of sick leave and annual leave are added in. The total supervisory salaries lost to absenteeism is equal to 52 (hours lost) multiplied by $48.06 (average wage), which gives a total of $2,498 per year.

The ninth step in Cascio's (1991) model is the calculation of costs incidental to absenteeism. Cascio (1991) notes the difficulty of calculating these costs from scratch. These costs will not be calculated for Conaust, and thus have been omitted from the calculations.

The total cost of employee absenteeism at Conaust can be determined by summing the total compensation lost to absent employees with the total supervisory salaries lost, and then adding in the incidental absenteeism costs. This results in a total figure of $174,974 per year. This means that each year, Conaust is spending almost $175,000 paying employees for not working, or doing work that is not essential to the success of the organisation.

The final cost to be calculated is that of the estimated total cost of absenteeism per employee. This works out to be $1,166. Meaning, each employee costs Conaust $1,166 in absences a year. These final costs would have been even higher had the figures for incidental costs been included.

6.2 CONAUST'S REACTIONS AND SOLUTIONS

Conaust's reaction to the calculation of absenteeism costs was that it was beneficial and "eye opening". This research was beneficial in that it was the first time that an absenteeism cost was available for the organisation. It also highlighted some of the inadequacies of Conaust's personnel recording methods. These methods currently consist of information being stored in multiple locations, with much of it existing in the heads of three supervisors. This has created a system in which accurate absenteeism levels are very hard to determine.

This research was "eye opening" in that it provided an absenteeism cost of $1,166 per employee per annum for Conaust. As no previous statistics were available, this figure represents a giant leap forward in Conaust's ability to monitor, and regulate the cost and incidence of absenteeism. The absenteeism cost figure of $1,166 was expected, but a figure of only half this amount would be considered acceptable, by Conaust.

Conaust had not previously calculated the cost of employee absenteeism, it had accepted and tolerated absenteeism as a legitimate business expense. However, as of next year a new computerised Human Resource Information System will enable regular absenteeism cost reports to be produced. This new system will take Conaust from being "really backwards" to being a leader in Human Resource Department cost calculation. The human resource information system will be linked to payroll and training information, so that the calculation of absenteeism costs is vastly simplified.

The calculated absenteeism cost figure will be used to highlight areas in which absenteeism is a problem. This will allow corrective action to be addressed specifically where it is needed in the organisation.

As Conaust is currently restructuring internally, and is awaiting the human resource information system, there are no plans to tackle reducing the cost, and incidence of absenteeism until after these two activities are completed.

7.0 BHP SHEET AND COIL PRODUCTS W.A.

BHP Sheet and Coil Products is a small organisation that produces steel products for local and national markets. They produce steel in rolls, or coils, for their customers. They also manufacture steel to custom sizes as required by customers. Some typical uses of BHP Sheet and Coil Products products are guttering, roofing and cabinet manufacture.

The organisation employs 34 staff members, 20 are wages employees, with the remaining 14 being office administrative staff. BHP Sheet and Coil Products was chosen to be part of this survey due to the recent restructuring in the organisation. One aspect of this restructuring was an agreement giving workers unlimited sick leave. It is this clause that has created the interest in this organisation.

Three years ago the organisation was a typical manufacturing company employing 66 workers. In an attempt to boost productivity and profit levels, a major restructuring program was undertaken. This program involved a change in the work culture of the organisation. The old award was replaced with employee bargaining. New conditions of work included gain sharing, employee development, employees being paid for skills acquired, not skills used, and unlimited sick leave. Self management was also introduced to the organisation, so there are now no supervisors in the company. Employees have been empowered to make their own decisions.

Other changes that have been implemented include:

i. Employees now work a 152 hour month, rather than a 38 hour week
ii. Contracting out of non-core work
iii. A reduction in both wages and salary staff, from 66 down to 34 (42 wages down to 20, and 24 salary down to 16).

The relevant unions were supportive of the organisation's call for restructuring and employee development, although they were wary in terms of writing the new award. This

was mainly to do with wages and conditions.

BHP Sheet and Coil Products does monitor its sick leave statistics, but only to determine individual patterns for problem employees. Most of these problem employees were 'weeded out' during the restructuring process. Those that remain face considerable peer pressure to turn up to work due to the self management process now in place. An absent employee is not letting down the company, instead they are letting their work mates down, who must work harder and longer to cover for the absent worker.

7.1 COST CALCULATION

The total estimated cost of absenteeism at BHP Sheet and Coil Products was $15,700 per annum for the organisation as a whole, and $461 per annum per employee. These figures relate to both the staff and wages employees. BHP Sheet and Coil Products lost a total of 1,332 hours to absenteeism, the majority being from wages staff (1,027 hours)(See Appendix Two for all cost figures).

Two assumptions were made concerning the average hourly wages of employees absent. The average hourly wage of office staff was assumed to be $17.00 per hour. This is because staff of vastly different salaries (receptionists, clerks, technical and managerial positions) are all included in this figure. Seventeen dollars is a mean figure extrapolated from the extreme values. Due to wages staff being paid from a skills matrix it has been assumed that their hourly wage is $11.00 per hour.

Employee benefits at BHP Sheet and Coil Products include annual leave, superannuation, long service leave, public holidays, training and workers compensation. These benefits equate to an additional 27.66% of wages, or $3.04 per hour. The total compensation lost per hour per absent employee is now equal to $14.27 per hour. This gives rise to a total compensation lost to absent employees figure of $14,802 (1,037 hours multiplied by

$14.27). This is the direct cost of absenteeism for BHP Sheet and Coil Products.

The total time spent by supervisory staff dealing with absenteeism has been equated to only 1.8% of available work time, or 35 hours per year. The average supervisory salary has been assumed to be $17.00 per hour, for reasons already given. Supervisory benefits are approximately 43% of this hourly wage ($7.31). This creates a total hourly supervisory salary of $24.31 per hour. This means that the total supervisory salary lost to managing absenteeism problems is $850 (35 hours multiplied by $24.31).

The ninth stage in Cascio's (1991) model is that of calculating the costs that are incidental to absenteeism. These incidental costs were not available for the absenteeism at BHP Sheet and Coil Products, and as such have been excluded form the calculations.

The total cost of absenteeism at BHP Sheet and Coil Products is equal to the total compensation lost to absent employees ($14,802) added to the total supervisory salaries lost dealing with absenteeism ($850). This is a total of $15,700 lost to BHP Sheet and Coil Products for work that is not considered core to the business. The estimated total cost of individual employee absenteeism is equal to $461. Both of these estimated cost figures are understating the true cost of absenteeism to BHP Sheet and Coil Products, due to the exclusion of the currently unavailable costs incidental to absenteeism, such as machine downtime, wastage and production losses.

7.2 BHP SHEET AND COIL PRODUCTS'S REACTIONS AND SOLUTIONS

The reaction from BHP Sheet and Coil Products was concern at the high costs associated with absenteeism. The absenteeism costs per employee per annum of $461 was roughly what was expected by the accountant. However, as no costings had been done in the past prior to this research, there is no accurate financial reaction, apart from a "gut feeling" of the cost ($461 per employee) being low compared to other similar

organisations. This "gut feeling" is based on the fact that this subsidiary of BHP is averaging 1 - 2% absenteeism per annum, while some of the best Eastern States works have only managed to reduce absenteeism rates to around 4% per annum.

BHP Sheet and Coil Products has suggested that the low absenteeism figure of $461 per employee per year reflects the benefits of an unlimited sick leave policy. According to management, this policy has virtually eliminated fraudulent sick leave use, by showing employees that the company is prepared to support sick employees for an indefinite period of time. Fraudulent sick leave is one of the major costs associated with absenteeism.

Although no previous costing has been done in the area of employee absenteeism, this research has highlighted a cost that was previously overlooked. BHP Sheet and Coil Products's management has expressed a desire to regularly calculate absenteeism costs to determine if absenteeism programs are working, or needed, and if any patterns in the levels of absenteeism costs are present. Absenteeism is seen as a barometer on the health of the organisation.

As there are no other absenteeism cost figures to compare the $461 to, this figure will be used as a benchmark for future calculations. If in a year the next calculation indicates a dramatic rise in the cost, and incidence of absenteeism, then solutions to the problem will be looked at. Until then no action will be taken.

8.0 LARGE METROPOLITAN PUBLIC HOSPITAL

This metropolitan public Hospital is a large hospital that employs 3,200 employees, both full time and part time. This equates to the full time equivalent of 2,728.6 employees. The employees are spread through a wide spectrum of occupations including: Cleaning; Maintenance; Nursing; Professional (technicians, medical support); Management; Medical staff. This Hospital was chosen as part of the research project due to the wide variety of occupations grouped together in the one location, operating under the same set of organisational rules.

Due to the large number of different occupations at the Hospital, there are some differences between sick and annual leave entitlements for different employees. However, most employees receive up to 10 days sick leave a year.

The Hospital believes that the cost of absenteeism is a problem, and that a more accurate, corporate level, costing figure is required. However, they are not overly concerned because they see their primary role as looking after patients, not improving employee attendance. The Hospital does keep manual records of absenteeism, but these records do not highlight the cost of the absences to the Hospital. They are used primarily to determine patterns in employee absences, once their leave entitlements have been used up. They are used in a disciplinary manner, and are only used when the award sick leave conditions have been breached.

8.1 COST CALCULATION

At the public Hospital, the total estimated cost of absenteeism was $3,967,762 for the whole organisation, and $1,454 for each employee. These figures relate to the equivalent of 2,728.6 full time employees, however the Hospital actually employs 3,200 employees (See Appendix Three for all costing figures).

A total of 188,923 hours were lost in the 1991/92 financial year to absenteeism. The majority of this was lost to nursing staff (72,899 hours), and blue collar staff (72,952 hours). Nurses and blue collar staff had an average of 10 52 days and 12.71 days per year absent from work, respectively.

The average hourly wage per employee was worked out to be $16.15 per hour. This was determined from a salary range of $11.40 up to $49.88 for senior medical staff. The average employee benefits per hour cost $3.86 per hour. Once again, senior medical staff had the highest benefits per hour of $8.11.

The total compensation lost per hour per absent employee was equal to $20.11. This is $16.15 as the average hourly wage, added to $3.86 for the average benefits per hour. The total compensation lost to absent employees is equal to the number of hours lost to absenteeism, multiplied by the cost per hour of employees wages and benefits. At the Hospital this equated to a direct absenteeism cost of $3,337,203.

An estimate was require to determine the average time supervisors spent dealing with absenteeism problems. A total of 16,206 hours were estimated to be lost by supervisors to absenteeism problems. The combined supervisory hourly wage is equal to $18.15. This is made up of a hourly wage of $15.34, and a hourly benefit of $2.81. The total supervisory salaries lost to absenteeism is $294,147 (16,206 hours multiplied by $18.15).

At the Hospital, an estimate of the incidental costs associated with absenteeism was able to be determined. These incidental costs included overtime payments, the cost of employing agency nurses, and other related goods and services. These incidental costs totaled $336,412 for the Hospital.

The total estimated cost of absenteeism is $3,967,762 per year. This is made up of the total compensation lost to employees, added to the supervisory salaries lost to

absenteeism, with the incidental costs of absenteeism added in. The cost of absenteeism per employee equals $1,454. This means that this Hospital losses almost $4 million each year to absenteeism.

8.2 HOSPITAL'S REACTION AND SOLUTIONS

The cost values determined were considered by the Hospital to be roughly what they expected. This is because the Finance Department at the Hospital produces regular reports which do indicate absenteeism levels, although not as thoroughly as does Cascio's (1991) model.

Most of the cost of absenteeism can be attributed to the nursing and blue collar staff at the Hospital (76.7% of the total hours lost). This is because most of these employees believe that sick leave is a right, for them to use as they please, regardless of how it affects the organisation. The nature of the work, and the consequent low job satisfaction is also seen as contributing to this high level of absenteeism.

If the Hospital wants to try and reduce the financial burden of absenteeism, the obvious place to start is with a program that deals with nursing and blue collar staff. An appropriate program for these workers is one that will create the desire to attend work, rather than stay at home. To achieve this the main cause of the absenteeism problem will need to be established.

Given that job satisfaction is likely to play a large part in any employee's decision whether to attend work or not, it can be assumed that the same is true for the nursing and blue collar staff at this Hospital. There are many ways in which job satisfaction can be improved by the Hospital. They can enrich the jobs performed, create self managing work groups, or try to minimise the dissatisfying aspects of the job. By creating jobs that are more interesting and stimulating the Hospital can increase employee involvement in

their work, and also increase the desire of employees to come to work. Further research into the causes of absenteeism at the Hospital is required before an accurate solution to the problem can be given. However, any attempt to improve the work should result in a decrease of employee absenteeism.

The Hospital may also find that the introduction of child care facilities leads to a decrease in the incidence of absenteeism. This is particularly relevant to the nursing staff which are predominantly female, many with young children. Once again, further research is required to find out if this is one of the true causes of absenteeism, and how it should be treated.

9.0 ANALYSIS AND DISCUSSION

The three organisations involved in this research have come up with three very different absenteeism cost figures, ranging from $461 per employee up to $1,454 per employee. A comparison of the three organisations, although inherently weak due to the vast differences in size, nature and role of the organisations, does provide some interesting insights into absenteeism.

The cost associated with absenteeism increased as the size of the organisation increased. The individual cost of absenteeism at BHP Sheet and Coil Products was $461 for 34 employees, Conaust was $1,166 for 150 employees, and the Hospital has an absenteeism cost of $1,454 for each of its 3,200 employees. This tends to indicate that absenteeism costs are related to the size of the organisation. It may also show that in smaller, close knit organisations, peer pressure may play a role in reducing the incidence of absenteeism.

The research has also indicated that absenteeism costs are not regularly calculated, and that they an place a considerable financial burden on an organisation. For example, the Hospital lost almost $4 million to absenteeism last year. This research has shown that absenteeism can be costed, and in a relatively simple manner that relies on information that should be readily available from Human Resource Department records.

The only stage in Cascio's (1991) model that proved to be a problem was the calculation of the incidental costs related to absenteeism. However, as the organisations become more accustomed to using the model as the basis for regular costing, this stage should prove easier to accomplish, and therefore provide a more accurate figure of the actual cost of absenteeism to the organisation.

The three organisations involved in the research all expressed an interest in the calculation of absenteeism costs, with a desire to recalculate the cost at regular intervals. This tends to indicate that once the cost of absenteeism to an organisation, and the relative ease with which it can be calculated, are highlighted, there is considerable interest in performing the calculation.

10.0 SOLUTIONS TO THE ABSENTEEISM PROBLEM

There are almost as many solutions to the problem of absenteeism as there are causes to it. They range from developing child care facilities and total quality management, through to reward and punishment strategies. However, no strategy will be effective unless it is well implemented.

Huczynski and Fitzpatrick (1989) have developed a seven step approach to improve productivity by reducing employee absence. Firstly, the absence problem needs to be assessed in terms of its magnitude. An accurate assessment will determine if it is cost effective to attempt to reduce the absenteeism problem.

Secondly, the absence problem needs to be located. High absence individuals, groups or classes of employees need to be identified. This allows a "rifle strategy" targeted at selected individuals or groups to be used, rather than a "blunderbuss" organisational wide strategy.

The third step is to identify, and prioritise, the causes of the employee absences. By finding out why employees are absent, the solution is able to address the real problems, not those factors assumed to be the problem.

After identifying the causes of absenteeism, the current absence control methods need to be evaluated. Evaluation is required to determine if the current approaches are appropriate, and if they are effective at reducing the incidence of employee absences.

The fifth and sixth steps are the design and implementation of the absence control program. By using the knowledge gathered about high absence groups, absence programs can be modified to meet particular organisational circumstances.

The final step in this process is to monitor the effectiveness of the absence control program. This should be in terms of how effective the new program is in practice, when compared to established benchmarks.

A more simplistic three stage model has been developed by Kelly (1990). This basically follows Huczynski and Fitzpatrick's (1989) model. Firstly, the absence problem needs to be identified. Once identified, appropriate corrective policies need to be established for those employees with the worst attendance records. Finally, appropriate preventative policies need to be put in place. Preventative policies are required because they can reduce the need for corrective action, while also improving the level of attendance for all employees, not just those with bad attendance records.

10.1 SPECIFIC SOLUTIONS

If one of the above two models is used to help select the appropriate measures to take to reduce the level, and cost, of absenteeism, eventually a decision will be made as to what policy, or policies, are needed for a particular employee, group or organisation.

The easiest way to reduce absenteeism is to remove or limit the effect of whatever is causing the absence to occur. There are many different solutions available to an organisation that wishes to reduce the incidence and cost of employee absenteeism. Some of the more common methods will be discussed below.

10.1.1. Realistic Job Previews

One way to reduce employee absenteeism is by matching potential employees to the position they will hold in the organisation via realistic job previews. They can increase the commitment of the employee to the work by allowing the employee to participate in both the positive and negative aspects of the position (Wooden et al, 1987, p. 60; Goodman et al, 1982, p. 326).

10.1.2. Attendance Measurement

Wooden et al (1987, p. 327) has found that by merely recording absence levels and then posting the results for all individual employees, attendance levels have greatly improved (from 86% up to 94%). By coupling this procedure to a system in which points are accumulated for each absence, with progressive discipline being imposed based on the points accrued, you have an effective absenteeism policy. According to Stinson (1991) this type of policy has resulted in an 83.5% drop in the absence rate at Allen - Bradley, a subsidiary of Rockwell International. This works out to a saving of approximately US $2,400 per month.

10.1.3. Rewards

One way to overcome the absenteeism problem is to provide employees with an incentive to come to work. This can be in the form of lottery systems, bonus pay, bonus days off, food vouchers, etc. (Pell, 1992; Palmer, 1988, p. 140; Wooden et al, 1987, p. 61; Chadwick-Jones, et al, 1982, p. 123). Providing rewards for good attendance works for two reasons. Firstly, employees are more likely to repeat behaviours and actions that have been followed by rewarding consequences. Secondly, it is possible to influence employees behaviour if the correct rewards are provided. (Wooden et al, 1987, p. 61). To be effective rewards should depend on: i. What employees would like to have but do not currently have, and ii. What employees find irritating in the work place (Wooden et al, 1987, p. 62).

10.1.4. Punishment

Punishing employees or taking disciplinary action is often held to be an effective method with dealing employee absenteeism (Wooden et al, 1987 p. 62). Punishment can include loss of pay for the day absent, suspension and in severe cases termination of employment (Pell, 1992; Ellis and Seifert, 1989; Wooden et al, 1987, p. 62). The use of sanctions against absent employees is given a heavy reliance in many organisations. At General Motors an employee who is absent 20% of their working time can be fired after four

absences over this level. This can occur even if the absences are for medical reasons (Ellis and Seifert, 1989).

Palmer (1988, p. 142) notes that sanctions tend to produce undesirable side effects such as the substitution of longer certified absence with shorter uncertified absence, or reducing absenteeism but at the cost of increased tardiness, decreased productivity and even turnover. (Cascio, 1991, p. 73; Palmer, 1988, p. 142; Wooden et al, 1987, p. 63).

10.1.5. Job Enrichment

Job enrichment refers to the designing of a job so as to increase the variety of tasks performed, add autonomy and responsibility, and increase the discretionary power of the individual. (Wooden et al, 1987, p. 65). By enriching a job to provide sufficient variety, complexity, challenge and skill use an organisation can engage the employees ability and commitment. Once absorbed in the work the employee will gain more satisfaction from completing the work, than not attending. (Goodman et al, 1984, p. 343). Job enrichment can be used to overcome job dissatisfaction, job boredom, and work routinisation - 3 of the major work related causes of absenteeism.

10.1.6. Self Management

Using self management to overcome absenteeism is related to job enrichment. Self management is a form of job enrichment that allows a group of workers to be responsible for their own work schedules. Self management has been used effectively to change the behaviour of smokers, alcoholics and drug abusers. (Goodman et al, 1984, p. 346). These are 3 of the major employee related causes of absenteeism.

Self management also relies on the principal of peer pressure. If an individual is absent from work they are letting their work peers down. The peers must work harder to cover the individuals absence. Peer pressure can be often be the deciding factor to an employee contemplating being absent. The success of self management can be seen in

the low absenteeism rate at BHP Sheet and Coil Products.

10.1.7. Employee Assistance Programs

Employee assistance programs, or wellness programs have a variety of uses and exist in a variety of forms. However, most employee assistance programs provide knowledge and counseling to employees on a range of issues, including smoking, fitness, or any number of social or work base areas. Due to the confidential nature of employee assistance programs, they can be used to help employees overcome inhibitions they may have about seeking help (Carty, 1990).

Employee assistance programs provide a sympathetic ear for employees with personal problems, and as such their role in reducing absenteeism is increasing. Employee assistance programs can be used to teach employees how to deal with many of the issues that can cause them to be absent from work - stress, smoking, alcohol and drug abuse amongst others.

Cascio (1991, p. 110) reports that prior to an employee assistance program being implemented in a large oil company, 295 employees were absent a total of 3,033 days. One year after entering the employee assistance program, this figure had reduced 74% down to 878 days. This resulted in a $311,400 saving to the organisation.

10.1.8. Other Solutions

As mentioned earlier, there are an immeasurable number of solutions to absenteeism. Some of the different solutions address individual problems, while others are for company wide use.

The provision of child care can result in a significant reduction in both the cost and incidence of absenteeism. Research has shown that broken child care arrangements cost U.S. businesses approximately $3 billion annually. Employers that have offered child

care benefits (subsidies, tax deductions, on site facilities) have reported significantly decreased levels of absenteeism as well as higher levels of job satisfaction and organisational commitment (Klein, 1991; Wooden et al, 1987, p. 67).

Total Quality Management can be used to combat absenteeism, in that it creates a new organisational culture. One that is receptive to continual improvement in product quality, practices and most importantly employees. When Total Quality Management is implemented into an organisation the new culture that is in existence allows employees to become involved in the quality process (Carter, 1992). An employee that sees the value of the Total Quality Management culture, will also see the effect their absenteeism has on the organisation, and its level of quality. Total Quality Management doesn't directly effect absenteeism, instead the culture it creates should help to reduce the incidence of absenteeism.

Cascio (1991, p. 71) has researched 3 solutions to the absenteeism problem. They are:

i. No work, no pay
ii. No fault absenteeism
iii. Consolidated annual leave.

No work, no pay relates to the proposition that if the employee doesn't turn up for work, they don't get paid for that day. Pay is docked for each unexcused absence, while excused absences are strictly defined and adhered to. (Pell, 1992).

No fault absenteeism "eliminates fault as a basis for determining whether absenteeism is to be excused." (Cascio, 1991, p. 73) A worker is classed as being either at work or absent. If absent, the worker is penalised based on predetermined levels. Only a limited number of excusable absences are allowed. This system penalises the chronic offender as it is based on the number of absences not the length of absence. That is four single day absences is penalised heavier that one four day absence, because longer absence are

usually related to illness. At a large American data processing firm, no fault absenteeism has led to a gain of four extra days per employee in terms of productivity and billable revenues (Green, 1989).

Consolidated annual leave is a absenteeism solution that combines sick and annual leave into one bank of holidays. Employees are able to take a day off without explanation, but this decreases the total bank of time available by one day. Unused time off is then able to be used as a bonus part of the annual leave (Cascio, 1991, p. 77; Markowich, and Silver, 1989).

11.0 CONCLUSIONS

The aim of this thesis was to look at absenteeism in three distinct organisations, in terms of Cascio's (1991) costing framework. The research answered the three research questions which in turn have been used to determine the validity of the research hypotheses.

The research has determined that the calculation of absenteeism costs is not a standard cost that is regularly calculated by organisations. However, in calculating the cost of absenteeism the three organisations have discovered that it is in fact a valuable and useful statistic to calculate regularly.

The cost levels of absenteeism for the three organisations were: Conaust $1,166; BHP Sheet and Coil Products $461; and Hospital $1,454 for each employee per annum. The total organisational cost of absenteeism per annum was: Conaust $174,974; BHP Sheet and Coil Products $15,700 and Hospital $3,967,762. It must be noted that i. these costs are only estimates of the true cost of absenteeism, and ii. the figures for Conaust and BHP Sheet and Coil Products are understated due to the exclusion of any incidental costs of absenteeism. These costs were excluded due to the difficulty involved in calculating them.

The three organisations involved in this research all have different opinions on how to use the absenteeism costs figures calculated. Conaust is waiting until after its internal restructuring is completed and their new computerised human resource information system, that can easily produce absenteeism cost reports is in place, before it takes any actions regarding reducing the cost and incidence of absenteeism. BHP Sheet and Coil Products is using these initial absenteeism figures as a benchmark for future calculations. Action over absenteeism will be taken if future calculations show significant differences in costs over a twelve month period. The Hospital has accepted its absenteeism costs

figures and does not have any immediate plans to implement solutions to attempt to reduce the level and costs of absenteeism. However, with almost $4 million being lost to absenteeism annually it cannot afford to overlook this problem forever.

The first research hypothesis has been proven false in that absenteeism costs do have an effect on the organisations involved. All three organisations have become more aware of absenteeism costs, and Conaust and BHP Sheet and Coil Products are ready to calculate these again and take corrective action if required.

The second and third research hypotheses has also been proven false as the absenteeism costs at each of the organisations where significantly different and created different effects on Management. This can be seen in the $993 range of cost figures from BHP Sheet and Coil Products $461 cost per employee up to the Hospitals $1,454 cost per employee. The reactions of Management at each of the three organisations were different. Both Conaust and BHP Sheet and Coil Products are planning to act on the absenteeism costs in the future but in different ways. The Hospital has reacted differently to both of these organisations in that it is accepting absenteeism as a legitimate cost with no immediate plans to reduce it.

12.0 FURTHER RESEARCH

This thesis has looked at absenteeism costing in three distinct industries. As such it is limited to some extent in its ability to be generalised, and therefore its application to other industries Australia wide is also limited. To overcome this deficiency it is suggested that further research be carried out looking at absenteeism costing in a particular industry, or across a broad spectrum of industries. This research will then allow absenteeism costs to be generalised across organisations in different industries.

Research is also required into the areas of human resource costing in Australia. This will provide a basis for any future research work into absenteeism costing.

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14.0 APPENDIX ONE - CONAUST

Step 1. Total employee' hours lost to absenteeism
5473 hours

Step 2. Weighted average salary/wage per hour per absent employee
Wages: $31.21 Staff: not calculated

Step 3. Cost of employee benefits per hour
Benefits = sick and annual leave
= $0.30 per hour

Step 4. Total hourly rate of wages and benefits per absent employee per hour
Cost: $31.21 + $0.30
$31.51 per hour

Step 5. Total compensation lost to absent employees
5473 hours x $31.51
$172,475

Step 6. Supervisors hours lost to absenteeism
1 hour per week
52 hours

Step 7. Average supervisory salary and benefits
Wage + Benefits
$45.60 + $2.46
$48.05 per hour

Step 8. Total Supervisors salaries lost to absenteeism problems
52 hours x $48.05
$2499 per year

Step 9. Incidental costs to absenteeism
Unable to calculate

Step 10. Estimate of total cost of absenteeism
$172,475 + $2499
$174,974 for the organisation

Step 11. Estimate of total cost of absenteeism per employee
$174,974 divided by 150
$1,166 per employee

15.0 APPENDIX TWO - BHP SHEET AND COIL PRODUCTS

Step 1. Total employee hours lost to absenteeism
1037 hours

Step 2. Weighted average salary/wage per hour per absent employee
Wages: $11.00 Staff: $17.00

Step 3. Cost of employee benefits per hour
Benefits = 27.66% of wages
= $3.04 per hour

Step 4. Total hourly rate of wages and benefits per absent employee per hour
Cost: $14.27 per hour

Step 5. Total compensation lost to absent employees
1037 hours x $14.27
$14,802 lost

Step 6. Supervisors hours lost to absenteeism
1.8 % of available time
35 hours

Step 7. Average supervisory salary and benefits
Wage + Benefits
$17.00 + 43%
$24.31 per hour

Step 8. Total Supervisors salaries lost to absenteeism problems
35 hours x $24.31
$850 lost

Step 9. Incidental costs to absenteeism
Unable to calculate

Step 10. Estimate of total cost of absenteeism
$14,802 + $850
$15,700 for the organisation

Step 11. Estimate of total cost of absenteeism per employee
$15,700 divided by 34
$461 per employee

16.0 APPENDIX THREE - PUBLIC HOSPITAL

Step 1. Total employee hours lost to absenteeism
188,923 hours

Step 2. Weighted average salary/wage per hour per absent employee

Blue Collar:	$11.40
Clerical:	$13.73
Management:	$29.67
Medical Junior:	$23.08
Medical Senior:	$49.88
Nursing:	$15.79
Professional:	$19.76
Average:	$16.15 per hour

Step 3. Cost of employee benefits per hour

Blue Collar:	$2.73
Clerical:	$2.52
Management:	$5.04
Medical Junior:	$4.01
Medical Senior:	$8.11
Nursing:	$5.18
Professional:	$3.62
Average:	$3.86 per hour

Step 4. Total hourly rate of wages and benefits per absent employee per hour
Cost: $16.15 + $3.86
$20.11 per hour

Step 5. Total compensation lost to absent employees
188,923 hours x $20.11
$3,337,203 lost

Step 6. Supervisors hours lost to absenteeism
0.59 of available time
16,206 hours

Step 7. Average supervisory salary and benefits
Wage + Benefits
$15.34 + $2.81
$18.15 per hour

Step 8. Total Supervisors salaries lost to absenteeism problems
16,206 hours x $18.15
$294,147

Step 9. Incidental costs to absenteeism

Agency Nursing:	$155,000
Overtime:	$136,400
Other Items:	$ 45,012
Total:	$336,412

Step 10. Estimate of total cost of absenteeism

$3,337,203 + $294,147 + $336,412
$3,967,762 for the organisation

Step 11. Estimate of total cost of absenteeism per employee

$3,967,762 divided by 2,728.6
$1,454 per employee